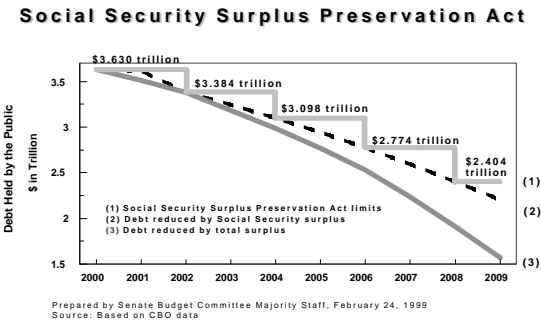


INFORMED BUDGETEER

SOCIAL SECURITY SURPLUS PRESERVATION ACT

- A bill will be introduced shortly by Senators Abraham, Domenici and Ashcroft that would lock in the Social Security surpluses by requiring that those surpluses reduce debt held by the public. This is no different than what should happen under current practices when the entire government runs a total surplus, but there is no mechanism to lock in these declining debt levels.
- Social Security surpluses helped to pay for the rest of government when it ran a deficit. The government, it is estimated will produce surpluses in the rest of government beginning in 2002 and therefore won't rely on Social Security surpluses.
- The bill would establish in law a declining limit on the level of debt held by the public. These limits would decline in one year intervals through 2002 and two year intervals thereafter. The amount of decline is equal to the entire Social Security trust fund surpluses for these years. The declining limits dedicate Social Security surpluses to reduce debt in the public sector.



- How does this protect and preserve Social Security? By setting in law - - a declining limit on debt held by the public that results from these trust fund surpluses, unlike the past, the Social Security surpluses cannot be used for the rest of government operations.
- A 60-vote point of order would lie against any legislation that resulted in the public debt limits specified in the law being exceeded.
- The bill would require an adjustment to these limits up or down based on any reform to the Social Security program. Also, the bill reaffirms the off-budget treatment of Social Security and prohibits the inclusion of Social Security funds in budget totals.
- The bill includes a provision which would automatically waive the 60 vote point of order if the country is at war.

THE PRESIDENT DOES NOT DEVOTE 15 PERCENT OF THE SURPLUS TO MEDICARE

- The President and his Administration have stated repeatedly that their budget plan “devotes” 15 percent of the total budget surplus to Medicare.
- In fact, OMB Director Lew stated before the Senate Finance Committee on March 10 that the country faces a choice: the surpluses can be used either for tax relief or they can be devoted to Medicare solvency, as proposed by the President.
- The media seem to have bought into this line of reasoning in most of their accounts of the budget debate. But is it true? To set the record straight, we provide the following question and response from correspondence between Senate Budget Committee Chairman Domenici and CBO Director Crippen:

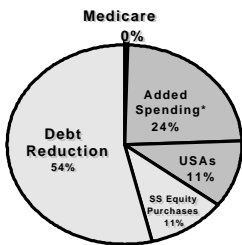
Q (from Senator Domenici): Does the President’s

proposal to transfer general fund resources to the Medicare Hospital Insurance trust fund reduce the unified budget surplus? The on-budget surplus?

A (from CBO): Because such a transfer is intragovernmental and is made to an on-budget trust fund, it would affect neither the total nor the on-budget surplus.

- Moreover, in its preliminary review of the President’s budget, CBO’s tables analyzing the President’s Framework never mention the Medicare Trust Fund transfer. Reason? Because the President’s transfers to Medicare have absolutely no effect on the on-budget or unified budget totals.
- Of course, it follows that if the President’s proposed transfers to Medicare have no effect on the budget surpluses (unified or on-budget), then these transfers would not in any way preclude a real use of the on-budget surpluses: tax relief for the American people.
- CBO Director Crippen confirmed this point during questioning at the Senate Budget Committee on March 3 when he responded that a budget plan using the on-budget surpluses for tax relief could also adopt the President’s proposed transfers to Medicare without any effect on the bottom line.
- The following chart shows how the President allocates the unified surplus, based on CBO’s re-estimate of the President’s Framework. As you can see, none of the unified surplus goes into the Social Security or Medicare Trust Fund — these are intragovernmental transfers and thus net out when one calculates the impact on the unified budget position.

How the President Allocates the Surplus



Note: Based on CBO's Re-Estimate of the President's Framework
* Includes the President's Pre & Post Framework Spending Increases

- This shows that no real, added money goes to Medicare today under the President’s Framework. All that the Medicare Trust Fund gets are IOUS which must be paid off by future taxpayers under a future President. That is why GAO Comptroller General Walker had this to say about the President’s Medicare Trust Fund transfer:

"The President's proposal to strengthen the HI program is more perceived than real. Specifically, while the HI Trust Fund will appear to have more resources as a result of the President's proposal, in reality nothing about the program has really changed. ..the reform proposed has more form than substance."

SPRING SUPPLEMENTAL TAKES CENTER STAGE

- The Senate is poised to consider a \$1.9 billion Emergency Supplemental Appropriations bill for FY 1999. The bill is fully offset for budget authority but would result in estimated outlays of \$275 million according to CBO estimates. As such, most amounts in the bill are designated as “emergency” requirements under the Budget Act.
- S. 544 as reported includes \$977 million in foreign disaster aid to Central America for recovery efforts following Hurricanes Georges and Mitch and the recent earthquake in Colombia, and replenishment of Department of Defense accounts that paid the

immediate costs of U.S. aid to the region.

- The Senate approves the \$100 million requested by the President for aid to Jordan pursuant to the Wye Accord. Nearly 60 percent of this bill is for foreign assistance.
- The bill also provides \$308 million for additional emergency disaster aid to agriculture, an increase of \$156 million over the Administration's request. Increases are provided for emergency grants to low-income migrant and seasonal workers (\$20 million); the emergency conservation program (\$30 million); and watershed and flood operations (\$100 million).
- The bill includes various emergency and non-emergency offsets to this additional spending, some of which are mandatory savings. The bill upholds the existing firewall between defense and non-defense spending.
- Notable legislative provisions include language prohibiting the federal government from receiving a share of the tobacco settlement monies negotiated by the states; prohibiting the implementation of a Secretarial Order to reorganize the Office of the Special Trustee for American Indians; extending by four months the moratorium on the issuance of regulations relating to the valuation of oil royalties; extending the authorization of the Airport Improvement Program through May 31, 1999; and extending current Chapter 12 bankruptcy provisions through September 30, 1999.
- The bill establishes a new steel loan guarantee program and also includes technical corrections to the 1999 Omnibus Appropriations Act are also included in the Senate bill.

VIEWS & ESTIMATE LETTERS

- On March 5, Committee views & estimates letters were due to the Budget Committee. Each committee that has authorizing authority has been asked to submit their views and estimates. Below is a summary of the committee submissions.
- **Agriculture:** For the future, the Committee supports a comprehensive approach to the economic situation facing farmers that, to the extent that it requires additional funds, is provided through the normal budget process.
- **Banking:** The committee recommends eliminating the special reserve for the Savings Associations Insurance Fund, paying interest on bank reserves held by the Federal Reserve, and reducing fees levied by the SEC, and opposes increases in flood insurance premiums, examination fees for state-chartered banks, and increases in housing programs. The letter from the minority essentially is a rebuttal of a portion of the majority's letter.
- **Energy and Natural Resources:** The Committee intends to consider legislation to bring spending from the Nuclear Waste Fund, and the Land and Water Conservation Fund in line with receipts generated, and to dedicate a portion of the receipts generated from Outer Continental Shelf development to offset the effect of such development on coastal zone communities.
- **Environment and Public Works:** The committee generally supports the President's request, with the exception of an accelerated pace of Superfund cleanups, and increases for Fish and Wildlife. Additionally, they believe the President's proposal for Federal Highway Administration contract authority is too low and opposes efforts to redefine obligation limits for highway, transit, and aviation programs as discretionary.
- **Finance - Spending:** The Committee intends to provide new

opportunities for disabled beneficiaries receiving Social Security or Supplement Security Income to return to work and self-sufficient lives. Additionally, the Committee believes the budget resolution should not assume any new savings from Medicare or Medicaid noting that the 1997 Balanced Budget Act provided sweeping changes in Medicare many of which are not fully implemented yet.

- **Revenues:** The Finance Committee may consider tax relief legislation. Relief may take the form of retirement incentives including pension reform, tax simplification, assistance with education costs, savings and investment incentives, extension of expiring tax provisions, and other tax code changes. The Committee may also consider legislation reinstating the Superfund Trust Fund taxes and related proposals.
- **Foreign Relations:** The committee does not recommend funding the increases requested by the President given the numerous domestic priorities. Rather, they support a "protected" 5-year authorization and funding for embassy security, as opposed to the requested 3-year advance appropriations. The Minority supports the President's request.
- **Intelligence:** The Chairman and Vice Chairman stated that they have no separate views and estimates from those submitted from other committees for spending in the Departments of Defense, State, Energy, Treasury, and Justice.
- **Indian Affairs:** The committee generally supports the President's requests however they are concerned with the President's requests for Indian agriculture and Indian health, and has concerns that the welfare to work program may require changes for native communities.
- **Judiciary:** Committee projects a needed five percent increase over 1999 for law enforcement, legal and administration of justice activities as well as assistance to state and local government through the Office of Justice programs.
- **Labor:** In principle, the committee supports increased investments in education but that no new programs should be funded until the Federal Government meets its obligations under IDEA. Additionally, the Majority opposes the Administration's proposed cuts in student loan programs. The Minority supports increased investments in current education programs, efforts to reduce class size and improve teacher quality and funding levels for certain higher education programs such as Pell Grants. The Minority calls for additional investments in programs such as the Child Care and Development Block Grant, the Low Income Home Energy Assistance Program, the NIH, and Food Stamps.
- **Small Business Committee:** Their letter argues that the Administration's request of \$995 million is at least \$331 million more than what is needed to operate successfully SBA's programs and operations in FY 2000. In contrast, the minority's letter essentially endorses the President's budget request.
- **Veteran's Affairs:** The Committee requests an additional \$1.7 billion in discretionary spending for 2000 for the medical care expenses of veterans. The additional funds will help the VA better address the long-term care needs of aging World War II and Korean War veterans and to provide new hepatitis C treatment.

CALENDAR

March 16: Senate Budget Committee will begin a mark-up of the FY2000 Budget Resolution. Dirksen 608, 2:30 pm.